

## NMO AUDIT COMMITTEE MEETING

2012 meeting number: 3 of 3

**DATE** : Tuesday 25<sup>th</sup> September 2012

**TIME** : 10:00am

**VENUE** : NMO, Room F27, Stanton Avenue, Teddington, TW11 0JZ

**PRESENT** : Alan Proctor [AP] Chair, Non Executive Committee Member  
Peter Cowley [PC] Non Executive Committee Member

**IN ATTENDANCE** : Peter Mason [PEM] Chief Executive, NMO  
Thomas Brown [BC] Finance, BIS  
Bernard Muscat [BM] NAO  
Paul Sherman [PS] IA, BIS  
Lavina Hinz [LH] IA, BIS  
Sarah Glasspool [SMG] Director of Finance, NMO  
Peter Sayce [PFHS] Secretariat, NMO

**APOLOGIES** : Dean Parker, Director, NAO

### Item 1 - Apologies for Absences/Substitutions/Introductions

Apologies had been received from Dean Parker, Director, NAO.

### Item 2 - Approval of today's agenda

Agenda approved as presented.

### Item 3 - Declarations of conflicts of interest

No conflicts of interest were declared.

### Item 4 - Minutes of previous meeting of 21/05/12

The AC minutes of the 21<sup>st</sup> May 2012 were approved by the committee.

### Item 5 - Table of Actions arising from minutes of the last meeting

- **Action 1** [PFHS - add an organisation chart to the induction pack for new members of the AC]. **An agenda item.**
- **Action 2** [LH – audit progress tracking table – to make clear which audits were monitored/closed]. **An agenda item.**
- **Action 3** [BM – NAO to consider including their audits in table at Action 2 above]. **AP** asked if this would be beneficial. **BM** agreed that it would help NMO's Management Board to be provided with an 'at a glance' audit progress status table.
- **Action 4** [SMG – to arrange a meeting to discuss the technical issues of the pension's liability]. **SMG** confirmed action had taken place. **CLOSED.**
- **Action 5** [SMG – to arrange a meeting for the AC non-execs to review NMO's final draft Annual Report and Accounts]. **SMG** confirmed review had taken place and accounts approved. **AP** requested that non-execs were given more time to review draft accounts as this would ensure proper consideration. However, this did not mean that proper consideration had not been given this time. **SMG** said she would take this on board for next year.

- **Action 6** [PFHS – amend text of AC’s Annual Report to Steering Board – to indicate that outstanding audit now completed]. Revised paper submitted to SB. **CLOSED.**
- **Action 7** [MG – Certification Services to redraft their paper setting out a proper business case for the AC to absorb the role of the Impartiality Committee]. Proposal withdrawn. **CLOSED.**

**Item 6 – Draft induction pack for new AC members**

**AP** commented that this was an improved version over the original draft organisational chart and had requested that the term ‘Non-Executives’ be included as this would clarify status of individuals compared to staff. **PS** remarked that the organogram gave the impression that IA reported to John Dodds, when in fact they reported to PEM. **PEM** said that the chart still did not properly reflect reporting lines and he wanted to amend it. **[Action 1, PEM/PFHS]**

**Item 7 - Update on key risks**

**SMG** referred to the Risk Register’s log of changes and summary. **AP** asked **SMG** to go through risks that did not meet the desired risk rating.

- **PC** enquired about the Shared Services issue. **SMG** said that this risk was contained within **FIN 5** [Failure of Financial Management or Internal Controls]. **PEM** said that the commercial argument put forward had been accepted and that NMO would not be moving its finance function into the RCUK shared services arrangement in phase 2.
- **CE 11** [Failure to recruit staff into frontline or business critical posts means we fail to deliver an objective]. **PEM** mentioned that the Cabinet Office controls could prevent NMO from meeting its business needs. NMO had more core jobs in the pipeline and it should be easier to recruit within existing guidelines. The Admin and Programme split made it easier to understand where individual staff sat, ie, front line or Admin. **PEM** said that external recruitment had been disappointing. **AP** enquired as to what the impact would be if NMO did not have sufficient staff to meet its targets. **PEM** stated that NMO had responsibility for a number of large contracts and it had been essential that we met our obligations. Failure to do so would impact on NMO’s reputation and income streams. **AP** suggested this should be looked into with regard the Risk Register coverage. **[Action 2, PEM]** **PEM** said that Enforcement brought staff in at trainee grade level as this ensured NMO developed the correct level of staff qualities and abilities. **PC** expressed concern about the critical mass of appropriate staff in place. **PEM** acknowledged that critical mass has been key in a small organisation like NMO. **AP** said that this issue should be covered at the appropriate level at strategic meetings. **[Action 3, PEM]**
- **AP** asked **SMG** about **FIN 3** [Loss of IT system/Failure of IT System to support Business]. **SMG** explained that NMO were more comfortable with the contractor’s support for the CAMS database and our concern had been satisfactorily resolved by the contractor.
- **AP** enquired about **Prog 3** [The relationship between NPLML and NMO deteriorates such that a partnership approach to operating the laboratory becomes impossible]. **PEM** said that NMO recognised the need for day to day management of their working relationship with NPL. Delays in announcements tended to cause uncertainty and these needed careful management. **AP** commented that the ‘Medium’ risk rating for this delicate issue had been due to careful management by NMO.
- **SMG** referred to **EST 2** [Failure of NPL Building Management System or any Business Critical Plant and Machinery or restricts NPL’s ability to deliver science]. The building management system had been replaced and operated satisfactorily. The Estate team had been working to a programme to address the various plant/equipment issues. When the programme was completed we would achieve the desired risk level.

- **PC** referred to the work on the new science contract with NPL and asked if there would be an implementation risk due to the complexity of the financial arrangements and the amount of money involved. **PC** asked if Internal Audit had been involved in the decision making process. **PEM** explained that the latest developments could increase the risk, but this would be dependent on whether or not the latest proposals became a reality. **PEM** agreed that this project could involve high levels of risk/exposure. Should this be the case, it would be elevated to the top level risk register. The Directorate level risk register for this project contained two pages of risks and had been monitored regularly. **PS** asked if this project had followed the Gateway Review process. **PEM** explained that the structure had been put in place and the Gateway Review recommendations would be implemented.

#### **Item 8 – Review Internal Audit progress report**

**PS** commented that the 5 assignments were going to plan. There were two items of non-compliance in relation to the work on Security Risks. One related to the delay in completing the IT disaster recovery exercise, but it had been acknowledged that the delay had been caused by a real event at the DR site which, understandably, took precedence. The second issue related to the method NMO employed to manage IT risks. NMO's approach had been different from the Cabinet Office's RMADS guidance, but IA were 'very happy' with NMO's approach to risk management.. **PS** also stated that the Records Management audit had achieved a 'green' rating which was good. The outstanding audits related to the 'Risk of Financial Loss Project' and 'Procurement'. IA were also pleased that the Risk Register had been updated to reflect the AC's views.

#### **Item 9 – Audit progress/tracking table**

**PS** explained that the tracking table had been designed to ensure that recommendations were listed, followed through and closed. **AP** remarked that an 'at a glance' view of progress would be good for management. To be comprehensive it should also include NAO audits. **PEM** suggested the table should also include main issues highlighted by UKAS audits, e.g., accreditation concerns. **[Action 5, PFHS]**

#### **Item 10 - Review NAO progress report**

**BM** referred to pages 7, 8 and 9 of the NAO report. NAO looked at the standard risks where local management could attempt to override controls. The audit did not detect any evidence of this. NAO also reviewed the indices employed in the accounts to revalue the estate and were content with the approach taken. With regard the preparation of the estate assets' data, NAO had found the 11/12 data had been provided to a good standard on a timely basis. The pensions' issue would need to be considered in the detail of the NPL future project. **SMG** remarked that this had been taken into account. **BM** referred to the points raised in the management letter at page 13. The first point related to non-current assets; about NMO's policy on impairment versus disposal. Although the matter was material, the treatment employed would not have had a huge impact in the accounts, but would, however, have a budgetary impact as impairments and disposals were treated differently in the budgets. The issue related to a building which had been brought back into service. NMO had relied on 2009 valuations which were appropriate at the time, but a current revaluation would have been more realistic. **PC** commented that the cost of a new valuation would have had a substantial financial impact on NMO's accounts because of the high value of the assets relative to the budget. **PEM** mentioned that, for long term planning, NMO needed to consider a full valuation of the entire site. **BM** referred to page 15 – Identified Misstatements. Fewer misstatements were recorded and the adjustments were small. To sum up; good quality accounts were produced for 11/12 which made them easier for NAO to audit. There would be a new NAO contact next year. **AP** indicated that the pension's deficit was likely to get bigger. Mortality changes had meant a big shift in deficits. **PEM** said that although present arrangements were paid by NPLML, NMO recognised that in the future NMO/BIS would be liable for any payments. NMO/BIS were guided by the pensions regulator on this point. It

was suggested that should there be money available it could be used for pension's deficit reduction. This, in turn, would leave more money in the future to fund science. As the pension scheme was an NPLML scheme, NMO tended not to interfere. However, NMO/BIS did have an interest. **AP** said this sounded materially relevant to the AC. **PEM** remarked that using gilt yields as a proxy was a questionable methodology - a mortality rate approach would be more meaningful. **AP** said NMO needed to consider all options available. **PC** thanked NAO for a constructive audit. **AP** congratulated PEM/SMG for demonstrating good and effective high standards of financial control.

**Item 11 – Review internal financial control framework**

**SMG** explained that little had changed since her report to the AC in September. HR would be moving to Corporate Services in the future. Richard Sanders, Director of Regulation had moved on loan to BIS [Better Regulation Directorate] for 6 months. Robert Gunn was therefore looking after Richard's responsibilities until he returned. **PC** enquired if there would be a risk with the additional responsibility impacting on Robert's existing work load. **PEM** explained that this had been a very finely balanced decision, but this was a good development opportunity for both Robert and Richard. **AP** asked about the impact HR would have on the stretched Corporate Service's team. **SMG** explained that her team already provided data for most of the returns drawn up by HR. **AP** said that there needed to be a balance between HR policy and casework issues; the latter could be time consuming. **SMG** mentioned that a G7 with appropriate experience would be recruited for this role. **PEM** explained that the NMO management board recognised the importance of the HR function. However, within NMO it was regarded as a management responsibility by all managers. The financial delegations which were to be handed down by BIS were now in place. Monthly financial reports now differentiate between Programme and Administration. **AP** asked for any comments, none received.

**Item 12 – Accounting issues**

**SMG** said that there were no new live issues. However, the main area of concern related to the production of the 12/13 accounts where BIS had decided to change the timetable by bringing the dates forward. **AP** said that at the recent AC chair meeting, participants were clearly unhappy with this initiative as BIS seemed to be giving themselves breathing space whilst at the same time reducing the time table for contributors. **SMG** indicated that this could be a problem, but believed that BIS would be asking for less information next year. **BM** explained that, although he no longer dealt with BIS's accounts, he understood BIS were streamlining the process.

**Item 16 – Paper on the business case for options for the finance function of NMO including Shared Services**

**SMG** said NMO had been discussing the detailed analysis of our finance costs and had visited the Shared Services facility in Swindon. It was not clear if the Swindon system would meet our needs. A meeting had subsequently been held, with the view that it did not make sense for NMO to be included in phase 2 – but would be considered in phase 3 in a year's time. **PEM** commented that once the Shared Services system at RCUK had been running for a while, we should be provided with more accurate pricing information and assurance that the new system worked as specified and also met NMO's accounting requirements. **AP** commented that he had read through the Shared Services paper and found it focused purely on cost reduction, not value which would take into account business requirements. We should reconsider this issue in a year's time. **SMG** said she would note this for a future meeting.

**Item 13 – Review Internal Audit expertise, effectiveness, independence & resourcing**

**SMG** said that she had been pleased with their supportive work and they had a good understanding of NMO's business. IA had also provided new auditors this year and they had been well briefed about our business culture. **PEM** indicated that the test here had been the

new 'Governance statement'. IA had a good understanding of the requirements and successfully helped NMO to be compliant. **AP** asked about IA's resourcing. **PEM** stated that he had considered allowing more audit days. However, the AC had reviewed programme proposals and IA demonstrated they had sufficient resource for the proposed audits.

**Item 14 – Review NAO expertise, effectiveness, independence & resourcing**

**SMG** explained that NMO had been fortunate with **BM** who had been very helpful and straightforward in his guidance. NAO staff were very good at handling the audit. Relations had always been good between NAO and NMO staff.

**Item 15 – NAO, IA & Committee Members only discussion**

n/a

**Item 15a – NAO, IA & Committee Members only discussion – feedback**

**AP** explained that NAO, IA and non-execs were very pleased with the quality and timely work NMO had carried out on its Annual Report and Accounts. In considering further ways to help NMO, Committee members had some pointers which were thought to be of benefit:

1. The top level RR should contain a risk which covered senior staff changes. This had been discussed during the AC meeting and it would enable NMO's Management Board to closely monitor any new top level arrangements to ensure they were working properly. **[Action 6, PEM]**
2. The top level RR should be given a formal review by IA as this would provide an independent review which would assist NMO in managing its risks. A review should take place more than once a year. **[Action 7, PEM]**
3. With respect to the Strategic Options Plan, IA should review and discuss the plan to provide confidence and visibility. **[Action 8, PEM]**

**Item 17 – AOB**

**PEM** noted that the new delegations issued by BIS, required NMO to comply with new procurement framework rules.

**Item 18 – Date of next meeting**

Date confirmed: Tuesday 29<sup>th</sup> January 2013, at 10:30 am, at NMO in Teddington.

**Table of actions:**

ACTION	ASSIGNED TO	DUE BY	DATE COMPLETED
<b>Action 1 – item 6</b> The organisation chart, to be included in the new AC member's Induction pack, to be revised.	PEM/PFHS	30/11/12	9/11/12
<b>Action 2 – item 7</b> Recruitment issues for large NMO contracts to be considered for inclusion in top level Risk Register.	PEM	31/12/12	13/12/12
<b>Action 3 – item 7</b> Issues surrounding the recruitment of appropriately skilled staff to be discussed at strategic level meetings.	PEM	31/12/12	13/12/12
<b>Action 5 - item 9</b> Audit Progress/Tracking table: To include UKAS type recommendations as well as those from IA and NAO.	PFHS	31/12/12	
<b>Action 6 – item 15a</b> To ensure senior staff changes were included in the top level Risk Register.	PEM	31/12/12	13/12/12
<b>Action 7 – item 15a</b> To ensure that IA formally reviewed the top level Risk Register	PEM	31/12/12	13/12/12

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more than once per year,			
<b>Action 8 – item 15a</b> IA to be involved in developing the content of the Strategic Options Plan.	PEM	31/12/12	9/12/12